

ABSTRACT

Digital economy is often viewed merely as an effort to utilize the internet and has not yet been considered a primary factor in driving sustainable economic growth. This may be attributed to the presence of a digital divide in Indonesia, comprising diverse provinces in terms of geography, dominant sectors, and available resources. Therefore, this research aims to investigate the impact of economic digitization development in regions on provincial-level output economic and the most influential digitization factors on regional economic growth in 34 provinces from 2019 to 2022. Drawing on the theory of endogenous economic growth, a panel data model is constructed that incorporates digitization into aspects of technological change, digital human capital, and digital physical capital. The variables used include digitally skilled human resources, ICT sector employment, digitalization usage, digital expenditure, digital infrastructure, digital finance, and digital institutions.

The findings of this study indicate that digitization in regions has a positive influence on the economic output of those regions. However, due to the presence of a digital divide, the magnitude of its impact varies according to the characteristics of each region. Furthermore, among the various digitization factors examined, the most significant and substantial influence is attributed to digital infrastructure, encompassing signal strength, the availability of BTS towers, and access to electrical networks. The next significant aspect is the utilization of digitalization to support economic activities, including the extent of digitalization usage in e-commerce sales, sales through social media, promotion, and communication. Additionally, aspects such as digitally skilled human resources, the number of ICT sector employees, and digitization in the financial sector also have a positive and significant impact on regional economic growth.

Keywords: economic digitization, economic growth, panel data analysis.